

RESPONSE TO

**THE MAINE CASINO GAMING MARKET: THE POTENTIAL IMPACT OF PROPOSALS
FOR EXPANDED GAMING IN MAINE, MASSACHUSETTS & NEW HAMPSHIRE**

**TO: Commission To Develop A Comprehensive Bidding Process For The Operation Of
Additional Casinos Or Slot Machine Facilities**

Senator John Patrick, Senate Chair

Representative Louis Luchini, House Chair

FROM: Peter Connell, Ocean Properties, Ltd., Hospitality Member

RE: Response to The Maine Casino Gaming Market Report

DATE: October 24, 2013

Dr. Clyde W. Barrow, DBA as Pyramid Associates, LLC, was retained by Churchill Downs and Penn National Gaming to prepare a market analysis of expanded gaming proposals in September of 2013 for presentation to the "Commission To Develop A Competitive Bid Process For The Operation of Additional Casinos or Slot Machine Facilities." It appears the intent was to show that an expansion of gaming to Southern Maine would only displace gaming revenues from the two existing Maine casinos, not create any meaningful new employment for the state, and not generate new local economic development in the region where a new facility would be located. This is utterly counterintuitive and could not be further from the truth.

This study/report, which is limited in scope, thus making it far from comprehensive, does not consider the difference between "convenience" casinos, which are what currently exist in Maine, and what is proposed, which is a destination resort casino with table games that would include a world class harness racing facility.

Barrow's conclusion is that the proposed Southern Maine facility would "serve a purely local market." If in fact that were true, said "local market" (within a 90 minute drive or 75 miles) has a population base that is more than three times larger than those of Oxford and Bangor combined with four times the aggregate income. However, the proposed Biddeford

Downs project will be a destination resort casino with table games, harness racing, entertainment, fine and casual dining, lodging, a spa, and other resort amenities, located in the heart of Maine's most visited tourism zone, The Maine Beaches. According to the 2012 Maine Visitor Research Report, The Maine Beaches account for 28% of all tourists visiting Maine. When coupled with the adjacent Greater Portland and Casco Bay zone, the number increases to over 40%. Of day visitors, over 50% (40% from Massachusetts and 14% from New Hampshire) are much closer to the Maine Beaches than any other zone. Of overnight-stay tourists, which generate the most revenue, 45% come from New England states, the majority of which are closer to Southern Maine, 37% coming from states other than Maine.

The existing "convenience" casinos located in Bangor and Oxford are in zones that, even when added together, do not come close to attracting the volume of tourists that Southern Maine does. Bangor is located in the Maine Highlands tourism zone and accounts for just 10% of Maine's visitors. The Maine Lakes and Mountains zone where Oxford is located attracts even fewer tourists at 9%, although it is closer to the New England market. Tourism is not mentioned once in the Pyramid report, which suggests that it was not properly considered. With 27,000,000 tourists visiting Maine in 2012, it is difficult to comprehend how tourism could be left out of any comprehensive gaming analysis, particularly considering the type of Southern Maine facility proposed.

Also missing is any discussion of the effect of the Nova Star Ferry, which will have a casino, three restaurants, and a theater. The ferry is scheduled to run daily from Portland, Maine, to Yarmouth, Nova Scotia, from May to October beginning in 2014. This is a tourist/leisure experience with which convenience gaming facilities, certainly ones that are not geographically close, would not be able to compete. It would seem clear that only a tourist-centric gaming facility in Southern Maine could compete, capturing revenues that would surely be lost to the state.

There is also no discussion in this report of gaming proposals for Washington County, Aroostook County, high-stakes electronic beano for the four federally recognized tribes, or the operation of slot machines by veterans' and non-profit organizations that are being considered by the Commission. Dr. Barrow's written response to an inquiry from Representative Henry John Bear on August 20, 2013, which was subsequently submitted to the Commission for consideration, would indicate that he was aware of at least one proposal by the Houlton Band of Maliseets. He discusses drive distances from the two existing casinos, population, ports of entry, and tourism.

In the "4th Biennial New England Gaming Behavior Study" produced by the Center For Policy Analysis, University of Massachusetts Dartmouth, and Dr. Barrow, "the differentiation between the resort casino market and convenience gambling" was explored in great detail.

Racinos and slot parlors were considered in the convenience category as the study did not acknowledge the combination of a race track with table games as well as slot machines and the other resort elements of a destination facility. Dr. Barrows reported that **“casino gamblers will travel farther to access table games, non-gambling amenities, and to experience the general atmosphere of a resort casino than a convenience gambling facility. Conversely, racino/slot parlor gamblers were attracted primarily by convenience, that is, the distance they must drive to reach a facility.”**

A report done by the Spectrum Group indicates that destination resort casinos are very different from “convenience” casinos: **“Destination resorts operate under very different business models – so different markets have different saturation points depending on such issues as variety and quality of their amenities.”**

In the “Maine Casino Gaming Market: The Potential Impact For Expanded Gaming In Maine, Massachusetts, & New Hampshire,” prepared for Churchill Downs and Penn National Gaming, the proposed destination resort casino that includes harness racing is erroneously categorized as a “convenience” facility. It should be noted that media accounts of what the project was to have consisted of in 2010 seem to be the only sources of information considered in this report. No one from Ocean Properties or Scarborough Downs was consulted or even approached for information regarding what is currently proposed.

A destination resort casino that includes a state-of-the-art harness racing facility and other resort amenities would afford the following advantages over “convenience casinos”:

- *Maine harness racing would be re-vitalized.**
- *Agriculture would be supported.**
- *Maine Family Farms would be preserved.**
- *Maine’s agricultural fairs would be supported.**
- *New gaming revenues would be generated both in and out of state.**
- *In state gaming revenues would be protected from New Hampshire and Massachusetts proposed projects.**
- *A destination gaming facility would be less vulnerable to out of state competition.**
- *Tourism would be enhanced with more overnight stays and greater revenues.**
- *Capital investment would be increased.**

***Existing attractions and businesses would benefit.**

***More people would be employed.**

***More goods and services would be purchased.**

***A destination resort would draw from larger geographic area and a much wider demographic.**

The study also primarily focuses on "casino cannibalization." "Industry cannibalization," a term used by many researchers to describe the negative effects that gambling establishments, generally "convenience casinos," have on regional and local businesses, is not addressed in the report. Neither does the study mention the "cannibalization" of other forms of legal gambling in the state or the businesses and organizations that are affected. Both of the existing casinos have had an adverse effect on harness racing, high stakes beano, off-track-betting, and charitable gaming conducted by non-profit and veterans' organizations.

The "casino cannibalization" highlighted in the report is nothing more than a demonstration of market pressures and free market competition as related to Oxford and Bangor. In fact, nowhere in the duties of the Commission is there a charge to examine the effects of an additional project on the two existing "convenience casinos." Most studies that discuss "casino cannibalization" focus on interstate issues. This study, however, addresses almost exclusively intrastate competition. This study does provide some additional information for determining the potential market for establishing new gambling opportunities in Maine, which is one of the Commission's duties. It is, however, far from complete, as no information is provided for feasibility in Washington and Aroostook Counties. It should also be noted that protecting monopolies held by behemoth gaming companies in Maine is not and should not be a consideration in the Commission's findings, which is what this report suggests should be done.

The gaming strategies of many other states, such as Pennsylvania, Maryland, Delaware, Ohio, to name a few, have recognized potential losses to neighboring states and have allowed the expansion of gaming options and/or expansion of facilities on the border to prevent this situation.

The visitation and gross gaming revenue estimates provided below as related to drive time certainly indicate that both Hollywood Casino and Oxford Casino are vulnerable to expanded gaming whether from Southern Maine or out-of-state competition. Although the key percentages of visitors that drive 31-120 minutes to Bangor, and the percentage of visitors that come from greater than 90 minutes to Oxford are both missing, it is still clear that both casinos will have difficulty keeping gaming revenues generated from Maine residents inside the state's

southern border (e.g., One has to drive 82 miles from Oxford just to get to the Southern Maine/New Hampshire line, taking nearly an hour and a half to get there).

| HOLLYWOOD | OXFORD |
|-----------------------------------|-----------------------------------|
| VISITORS | VISITORS |
| 25% TRAVEL LESS THAN 60 Minutes | 22% TRAVEL LESS THAN 60 Minutes |
| 60% TRAVEL MORE THAN 90 Minutes | 54% TRAVEL BETWEEN 31-120 Minutes |
| 75% TRAVEL THAN 60 Minutes | 78% TRAVEL MORE THAN 60 minutes |
| GROSS GAMING REVENUE | GROSS GAMING REVENUE |
| 51% TRAVEL LESS THAN 60 Minutes | 34% TRAVEL LESS THAN 60 Minutes |
| 62% TRAVEL BETWEEN 31-120 Minutes | 65% TRAVEL BETWEEN 31-120 Minutes |

It should be underscored that this study contains many questionable assumptions, and many market conditions/considerations are simply left out or ignored. Following is a revenue impact summary from the various scenarios presented from the information given in the report:

SUFFOLK DOWNS (Without Rockingham or Biddeford)

OXFORD

21.9 million of current gross gaming revenue would be captured (29.8% by 2018)

HOLLYWOOD

5.7 million of current gross gaming revenue would be captured (9.5% by 2018)

BIDDEFORD DOWNS (without Suffolk Downs or Rockingham Park)

OXFORD

34.6 million of current gross gaming revenue would be captured (47.1% projected revenues)

HOLLYWOOD

17.4 million of current gaming revenue would be captured (29.1% projected revenues)

BIDDEFORD DOWNS (if opened after Suffolk Downs)

OXFORD

12.7 million of additional current gross gaming revenue would be captured (additional 17.3% projected)

11.7 million of additional current gross gaming revenue would be captured (additional 19.6% projected)

ROCKINGHAM PARK (with Biddeford Downs and after Suffolk Downs opens)

OXFORD

4.2 million of current gross gaming revenue would be captured (5.2% projected)

ROCKINGHAM PARK (without Biddeford Downs and Suffolk Downs)

OXFORD

21.1 million of current gross revenue would be captured

BIDDEFORD DOWNS, SUFFOLK DOWNS, & ROCKINGHAM PARK

OXFORD

Could reduce gross gaming revenues by 52.3% (2018)

HOLLYWOOD

Could reduce gross gaming revenues by 29.1% (2018)

It is very difficult to make definitive conclusions (for both the respondent and the author) from the limited and incomplete data presented. Many of the numbers and percentages used do not identify the origin and do not define the description. For example, the report says that "in 2012, Maine's two casinos generated \$99.2 million in Gross Gaming Revenue." According to the state's definition and reported by the Maine Gambling Control Board, Hollywood Casino alone grossed over \$500,000,000 that year. One could assume that Dr. Barrow was actually referring to the taxable revenue of both casinos, but if so, that number is understated by over a half a million dollars (It was \$99.7 million according to the state figures). Also, as can be seen in the findings above, some of the percentages are assigned to 2018 and some are described as projected gross revenues for no date specific.

The flaws and omissions in the report aside, Penn National Gaming and Churchill Downs have shown themselves to be capable of responding to market pressures. Penn National Gaming operates 28 facilities in 18 jurisdictions. Combined, these Penn facilities have 34,500 gaming machines, 850 table games, and 1.6 million square feet of gaming space. According to *The Washington Post*, Penn once, when it was in its interest to do so, "**spent more than 40 million dollars trying to persuade Maryland voters to defeat a gambling expansion plan.**" Furthermore, *The Baltimore Sun* reported that in Ohio, Penn National, "**poured tens of millions into ballot campaigns to defeat gambling expansion in order to protect a nearby casino.**" Churchill Downs has physical locations in 9 states, employs 4,500 people nationwide and purchased the Oxford Casino for \$160,000,000. Following the closing, a 3.2 million dollar expansion was announced in spite of approved gaming expansion in Massachusetts and the likely approval in New Hampshire.

The duties of the Commission are as follows:

- *Examine the impact of existing casinos on local economies and the State economy overall and any impacts on other forms of legal gambling conducted within the State
- *Examine the impact of the establishment of casinos or similar facilities in the states of New Hampshire and Massachusetts and neighboring provinces in Canada on the State economy and the revenue generated by existing casinos in the state
- *Gather information to determine the potential market for the establishment of new gambling opportunities in the State
- *Consider the feasibility of the licensing of expanded gambling opportunities by persons or groups who are eligible for existing licenses to conduct games of chance, beano, high stakes beano, harness horse racing and off track betting, including but not limited to slot machines or table games
- * Develop recommendations for a competitive bidding process for the privilege to submit an application to the Department of Public Safety, Gambling control Board for the operation of a slot machine facility or a casino

The report does provide limited information on the impact of establishing casinos in New Hampshire and Massachusetts, but examines little else of relevance to this Commission. Sufficient information and empirical data have been submitted to the Commission to evaluate and conclude that a Southern Maine destination resort casino with a harness racing facility would benefit Maine mightily. Understanding potential redistribution of revenues within the state certainly concerns the private enterprises involved, but the Commission needs to remain focused on the items within its purview.